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What's Happening to Food Prices?

Summary of Report

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Introduction

What's happening to food prices? How much are they changing, and why? How much of the price goes to the farmer and how much to food processors and marketers? Because of the great interest in these questions, Congress has directed the U.S. Department of Agriculture to regularly study them. This report, from USDA's Economic Research Service, will bring you up to date on the answers, focusing on developments during 1982.

It was prepared in the National Economics Division of the Economic Research Service by Denis Dunham, and is based on a more technical report, "Developments in Farm to Retail Price Spreads for Food Products in 1982," to be issued soon. See page 6 for information on how to obtain the report. The Economic Research Service carries out research on many aspects of food economics of concern to consumers, farmers, and the food industry. To learn about some recent publications on food research, see page 7.

'82 Food Prices Rose the Least in 6 Years

The rise in food prices slowed dramatically last year, helping to ease pressures on family budgets and making a big contribution to the fight against inflation.

The price of food averaged 4 percent higher in 1982. That was half the 1981 rise of 7.9 percent. As often happens, food prices in 1982 rose more slowly at foodstores than at eating places: 3.4 percent versus 5.3 percent. In both cases, however, prices increased much more slowly than the year before.

Why? There were a number of reasons: Excellent weather produced bumper harvests on American farms and production of most livestock foods increased, making food supplies abundant. At the same time, the recession cut into buying power, and thus, consumer demand for food. Meanwhile, the cost of doing business for firms in the food industry rose more slowly than in recent years. And finally, prices of imported foods and fish increased very little.

This meant good news for food shoppers. For example, prices of many foods at the grocery store were little

higher than the year before, and some were much lower. From August on, the combination of abundant food supplies and weak demand caused grocery store food prices to drop from one month to the next.

For farmers, though, the news was not good. The prices that farmers received also dropped throughout the last half of 1982. USDA economists reported that the farm value of foods sold through grocery stores rose by only 1 percent between 1981 and 1982. This was the smallest increase since 1977. Most of the small rise in farm value reflected higher prices of pork and fruit; farm values actually fell for many foods.

The 1-percent overall rise in farm value wasn't enough to cover rising farm production costs. Prices that farmers paid for the various inputs used in farming rose by about 3 percent. This disparity between the prices that farmers received and paid contributed to a sharp drop in net farm income, prolonging a period of financial stress that has lasted for several years.

When economists examined the causes of last year's 3.4-percent rise in grocery store food prices, they found

Pace of Food Prices Slows

Percent



Prices at foodstores and eating places.

that the slight increase in the farm value accounted for only one-tenth of the rise.

Higher prices for imported foods and fish caused another one-tenth of the rise in foodstore prices. The

remaining eight-tenths came from a higher farm to retail price spread. The farm to retail price spread, or difference between the farm value of food and its retail price, is the charge for processing, shipping, and retailing farm-produced foods.

Although the spread rose by 5.1 percent last year, the rise was far slower than in 1981 and the smallest increase in 5 years. Smaller increases in labor, packaging, and energy costs were mainly responsible.

Weaker consumer demand posed problems for the food industry as well as for farmers. This industry—which encompasses such diverse firms as food processing, shipping, foodstores, and eating places—is a major sector of the U.S. economy, and one of the largest in terms of the number of jobs it provides.

Prices of Most Foods Moderately Higher

During 1982, the prices of most of the foods that we buy at the supermarket rose by just pennies, and prices of many dropped. The two notable exceptions were pork and fresh fruit. In both cases, reduced output on the farm led to sharp price increases at the store.

Here's a wrapup of price changes at the supermarket last year, comparing average prices for all of 1982 with those of a year earlier.

Meat and Poultry. Except for pork, larger supplies and weak consumer demand kept meat and poultry prices down. Retail beef prices, for example, were up only 1.4 percent. Poultry prices fell 1.8 percent in response to larger supplies of broilers, and egg prices declined 2.8 percent. Pork prices rose sharply through most of the year to average 12.9 percent higher.

Dairy Foods. Retail prices of milk and other dairy products rose only 1.4 percent in 1982, the smallest rise in a decade. Changes in dairy legislation that kept the price support for milk at its 1980 level and record-large milk production slowed the rise in retail dairy prices.

Crop Foods. Retail prices of most foods derived from crops were held down by large supplies of vegetable oils, sugar, and food grains. Retail prices of fats and oils—such as vegetable shortening, salad dressing, and margarine—averaged 2.7 percent lower. The price of sugar dropped sharply. For all sugar and sweets, though, average prices were down only fractionally.

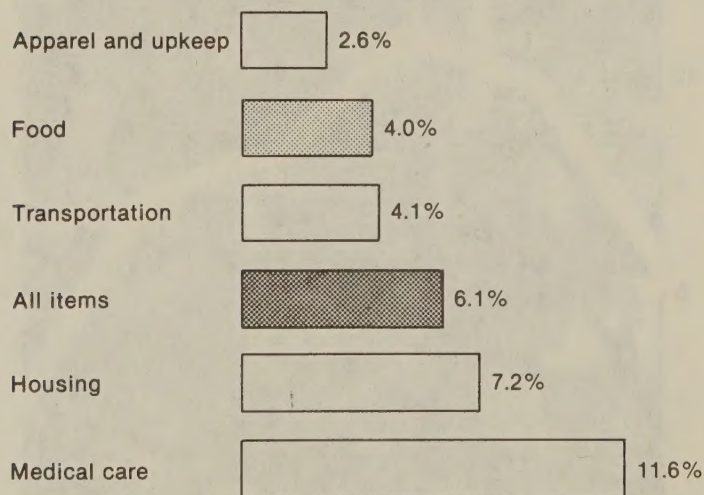
In contrast, prices of cereals and baked goods went up 4.5 percent, even though grain prices dropped. The costs of manufacturing and distributing these highly processed foods—which accounts for most of their price—rose last year.

Fruit and Vegetables. Last year's fresh fruit and vegetable prices averaged 5.5 percent above those of 1981.

How Register Tapes Compared Average Prices Paid at Foodstores

	1981	1982
Chicken, 1 lb.	\$0.74	\$0.72
Eggs, 1 doz.	.91	.88
Ground chuck, 100% beef, 1 lb.	1.80	1.78
Pork chops, 1 lb.	2.13	2.38
Bacon, 1 lb.	1.67	2.24
Milk, ½ gal.	1.12	1.12
Butter, 1 lb.	2.00	2.05
Ice cream, ½ gal.	2.02	2.10
Flour, 1 lb.	.22	.22
White bread, 1 lb.	.52	.53
Vegetable shortening, 1 lb.	.78	.79
Sugar, 1 lb.	.38	.33
Potatoes, russet, 10 lbs.	3.03	2.30
Lettuce, 1 lb.	.49	.56
Oranges, Calif., 1 lb.	.39	.47
Tomatoes, 1-lb. can	.50	.55
Frozen orange juice, 12 oz. can	1.02	1.06
French fried potatoes, frozen, 1 lb.	.63	.64

Food Prices Up Less than Most Others



Consumer Price Index, 1982

For 7 of the last 8 years, food prices have risen more slowly than other prices. Last year, the modest rise in food prices helped reduce overall inflation to 6.1 percent, ending 3 years of double-digit increases in the consumer price index.

For the second straight year, a freeze in Florida reduced supplies, causing prices to go up early in the year. Larger vegetable supplies later on, especially for fall potatoes, held the annual rise in fresh vegetable prices to only 1 percent. Fruit prices, however, averaged 13 percent higher, reflecting much smaller supplies, particularly of oranges and peaches.

The Farmer Received Less For Many Foods

USDA estimates the farm value for a fixed list or "market basket" of foods. This value measures what farmers receive for enough of each product to produce one retail unit. For most foods in USDA's shopping cart, farmers received less in 1982 than in 1981. Larger supplies of farm products coupled with weak demand caused by the

recession lowered the farm prices of many commodities, especially poultry, eggs, food grains, and oilseeds. For example, farmers received 53 cents for a dozen eggs sold in the store, 3 cents less than in 1981.

Cereal and bakery products also registered a sharp farm-value decline—9 percent. The value to the farmer for wheat in a 1-pound loaf of white pan bread sold in supermarkets dropped from 4.7 cents to 4.4 cents.

In spite of the lower farm values of many foods, the farm value of the entire market basket increased by 1 percent, mainly because of two food groups. Higher hog prices boosted the farm value of meat products by about 7 percent. The farm value of fresh fruit jumped by 30 percent in response to a one-third smaller California orange crop, one-fifth fewer peaches, and smaller supplies of most other fresh fruits.

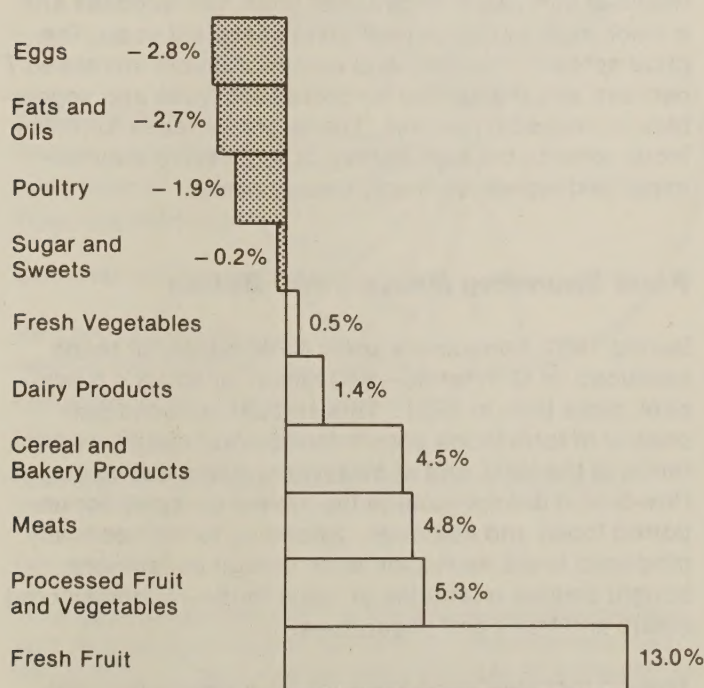
Food Price Changes At a Glance

Item	1980	1981	1982
	Percent		
All food ¹	8.6	7.9	4.0
Food away from home	9.9	9.0	5.3
Food at home	8.0	7.3	3.4
Imported foods and fishery products	11.7	5.8	2.7
Domestically produced farm foods ²	7.2	7.7	3.6
Farm value	5.5	2.7	1.0
Farm to retail price spread	8.3	10.5	5.1

Year-to-year increases in components of retail food prices.

¹Data based on Bureau of Labor Statistics, Consumer Price Index for urban consumers. ²Data based on USDA market basket statistics.

Some Food Groups Cost Less



Change in foodstore prices, 1982.

Farm Value Share of Foodstore Prices

	1982 retail price	Farm value	Farm value share of retail price ¹
Eggs, large, 1 doz.	\$0.88	\$0.53	60%
Choice beef, 1 lb.	2.42	1.40	58
Milk, ½ gal.	1.12	.59	52
Chicken, 1 lb.	.72	.36	50
Pork, 1 lb.	1.75	.88	50
Frozen orange juice, 12 oz.	1.06	.46	43
Sugar, 1 lb.	.33	.12	37
Oranges, Calif., 1 lb.	.47	.15	31
Potatoes, russet, 10 lbs.	2.30	.57	25
Lettuce, 1 lb.	.56	.05	10
Tomatoes, 1-lb. can	.55	.05	9
White bread, 1 lb.	.53	.05	9

¹Computed from unrounded data.

Farm Value Share of Food Price Lowest in Two Decades

The farm value averaged 35 percent of the retail price for a market basket of foods, unchanged from 1981. This share, the lowest in two decades, compares with 37 percent in 1980 and 38 percent in 1979. In both years abundant food supplies held down farm prices while retail prices rose faster because of processing and marketing charges.

Farm value percentages vary greatly among foods. The farm value contributes more to the retail price of eggs, meats, poultry, and dairy products than it does for most

other foods. Thus, changes in prices received by farmers for these commodities in 1982 affected retail food prices the most.

For example, higher farm prices for hogs accounted for much of the rise in retail meat prices while lower farm prices for eggs caused a decline in retail egg prices. Lower poultry prices at the farm caused about half of the decline in retail poultry prices.

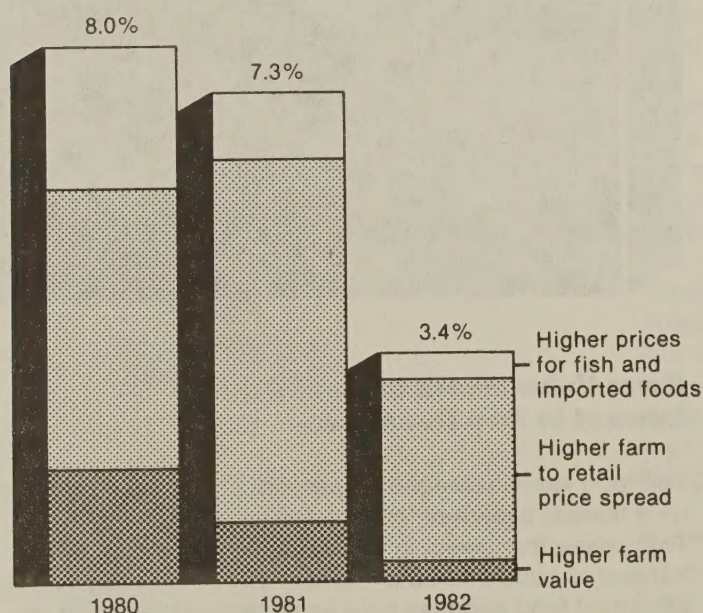
The farm value of most foods that come from crops represents a small share of the retail price. Last year, farmers received 31 percent of retail fresh fruit and vegetables, and 17 percent for processed fruits and vegetables, and 12 percent for bakery and cereal products. Thus, even the large 9-percent decline in farm value of food grains contained in cereal and bakery products last year did not cause a decline in retail cereal and bakery prices.

Farm to Retail Price Spread Rises

The difference between what farmers received and what consumers paid for USDA's market basket of foods rose 5.1 percent in 1982. This price difference, called the farm to retail price spread, represented food industry charges for handling, processing, and retailing food commodities.

Farm to retail price spreads were higher for all groups of food. Price spreads for poultry increased only 1.5 percent, although those for eggs were up by 8 percent.

Why Foodstore Prices Increased



Yearly increases in foodstore prices and contributing factors.

Most of the increase in foodstore prices comes from a larger farm to retail price spread—the amount that pays for processing and marketing food. Higher prices for imported foods and fish and a rising farm value also raise retail prices.

How the Price of Bread is Sliced

	Cents per pound, white bread
Farm ingredients	
Wheat	4.4
Other farm ingredients	.6
Nonfarm ingredients and other costs	1.8
Delivery of wheat to miller	1.0
Flour milling	1.0
Delivery of flour to baker	.6
Bread baking and selling	34.8
Wholesaling and retailing	9.0
1982 retail price	53.2

Over time, increases in farm to retail price spreads for these products have been smaller than those for most other foods because egg and poultry processing operations have grown larger and more efficient.

The price spread for meat products rose 3 percent, a smaller increase than for most other foods. Although the price of livestock rose quickly during the first half of the year, retail meat prices were slow to follow suit because of weak consumer demand.

The price spread for dairy products rose 4.4 percent, the least in 4 years, because of large milk supplies and a much smaller rise in marketing costs last year. The price spread for bakery and cereal products increased 7 percent, and the spread for processed fruits and vegetables increased 8 percent. The larger increase for these foods reflects the high degree of processing they undergo and higher labor and energy costs.

Food Spending Nears \$300 Billion

During 1982, consumers spent \$298 billion for foods produced on U.S. farms—\$13 billion, or about 4.5 percent, more than in 1981. This amount included purchases of farm foods both in foodstores, roughly two-thirds of the total, and at away-from-home eating places. However, it did not include the money we spent for imported foods and seafoods. Spending for domestically produced foods increased even though consumers bought smaller quantities of many foods—especially red meats and fruits and vegetables.

Tracing last year's spending for farm produced foods, about 28 percent went back to farmers, who received

about \$83.5 billion, up \$1 billion from 1981. The remaining \$214 billion—the marketing bill—went to the food industry for handling, processing, and retailing foodstuffs after they left the farm. The marketing bill was up by \$12 billion in 1982, and thus accounted for more than four-fifths of the year's increase in consumer food expenditures.

Higher Labor Costs Add Most to Marketing Bill

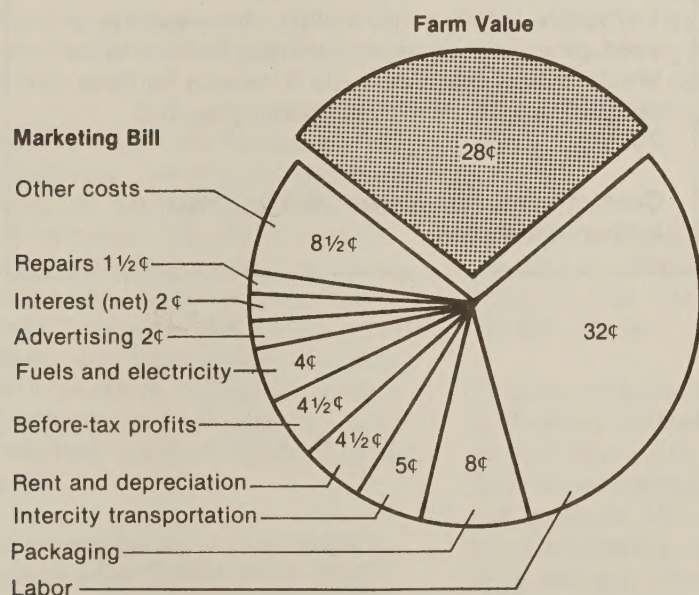
Last year, the food industry's bill for processing and marketing rose by \$12 billion. This accounted for all but \$1 billion of the \$13 billion rise in consumer spending for farm-produced foods.

About \$7 billion of the marketing bill increase can be traced to rising costs for labor, packaging, transportation, and energy—labor alone added nearly \$5 billion. Here is USDA's analysis of what happened to food industry costs for:

Labor. Wages, salaries, and worker benefits rose 5.3 percent to \$95.5 billion. This was nearly one-third of total consumer food spending, and was more than the farm value.

The increase in labor costs, while large, was much

What a Dollar Spent on Food Paid for in 1982



Other costs include property taxes and insurance, accounting and professional services, promotion, bad debts, and many miscellaneous items.

1982 preliminary.

When you spend a dollar on food at the supermarket or restaurant, what does your money pay for? The wheel above shows that in 1982, 28 cents went back to the farmer, 32 cents paid for labor costs, and the remaining 40 cents covered many other marketing costs—from packaging to profit.

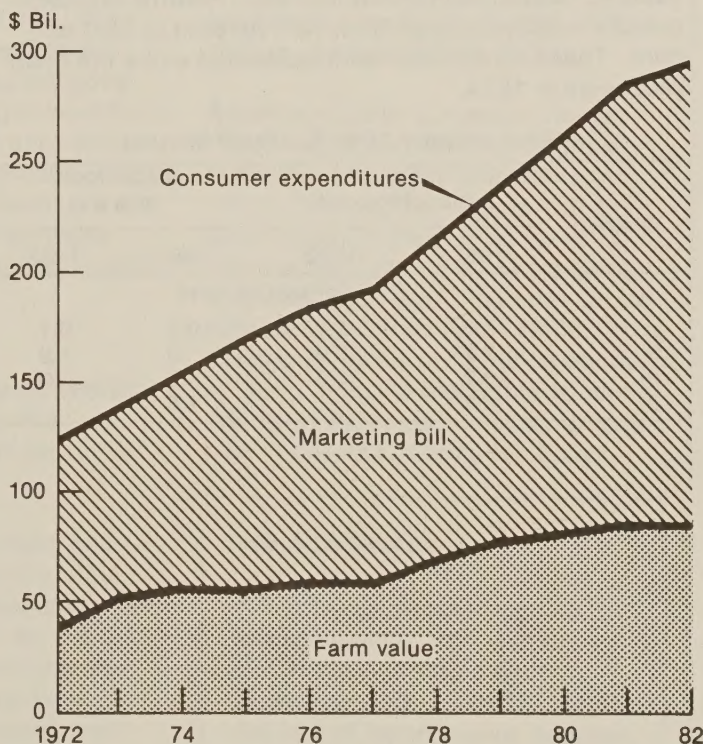
smaller than it had been a year before. Most collective bargaining settlements in 1982 provided for much smaller wage increases for workers, including those employed in food canning and meatpacking, and for retail foodstore clerks and meatcutters. In addition, labor costs were tempered by smaller cost-of-living raises as inflation eased, and by concessions made by workers of some companies in financial straits.

Packaging. Costs for packaging materials were modestly higher in 1982 at \$24 billion, or nearly 8 percent of total consumer expenditures for farm foods.

Transportation. Higher freight rates, particularly on railroads, raised food transportation costs by over 4 percent. Railroad freight rates for food products were 7 percent higher; truck rates for hauling produce and other foods were held down by lower diesel fuel prices and a labor contract settlement that did not provide for any wage increases for drivers.

Energy. The fastest rising component of the marketing bill for several years has been energy. Last year the rise in energy costs was slowed by a boost in petroleum stocks that forced a cut in diesel fuel prices. However,

Marketing Bill Adds Most to Food Spending



For domestically produced farm foods purchased by civilian consumers both at foodstores and eating places.

1982 preliminary.

Since 1977, the marketing bill has added \$82 billion of the \$107 billion increase in consumer expenditures on domestically produced foods, while the farm value has added \$25 billion. The steady growth in the marketing bill in the past 5 years was mainly caused by rising labor costs and by rising prices of other non-farm inputs bought by the food industry.

Marketing Costs Rose Less in '82

The \$12-billion rise in the marketing bill was well below the \$21-billion increase that took place in 1981. An index of the prices that the food industry pays for labor and a variety of inputs jumped by 10.9 percent in 1981, but advanced by only 5.2 percent in 1982.

rising natural gas and electric rates caused the energy bill of food processors, wholesalers, and retailers to go up to about \$12 billion. Energy made up 5.5 percent of the marketing bill and about 4 percent of consumer food expenditures.

Manufacturers' Margins Decline; Retailing Profit Margins Steady

Recession-weakened demand reduced profit margins of many food processors. Profits of manufacturers of packaged and prepared foods held up relatively well, partly as a result of low raw commodity prices. Based on Federal Trade Commission data for the first 9 months of the year, overall profits after taxes of manufacturers of food and kindred products declined from 3.1 percent of sales in 1981 to 2.9 percent in 1982. Returns on stockholders' equity dropped from 13.4 percent to 12.3 percent. These profit rates were the lowest since the deep recession in 1974.

Food Industry After-Tax Profit Margins

Quarter	Food manufacturers		Retail food chains	
	1981	1982	1981	1982
<i>Percent of sales</i>				
I	3.0	3.1	0.8	0.1
II	3.2	2.9	.9	1.2
III	3.2	2.8	.6	1.0
IV	3.3		1.5	

Profits, after taxes, of food chains averaged 0.77 percent of sales in the first 9 months of 1982 compared with 0.79 percent a year earlier. First-quarter 1982 profit margins of the food chains were substantially lower because of a huge loss by one company from store closings. Food chain profit margins in the second and third quarters were higher than in 1981. Larger profit margins of food chains are attributable to reduced labor, energy, and other cost pressures, and small gains in productivity.

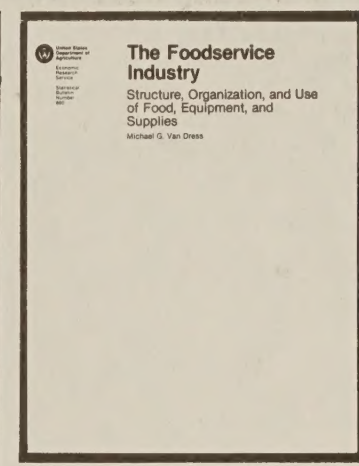
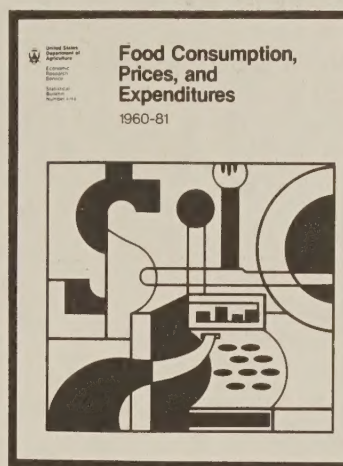
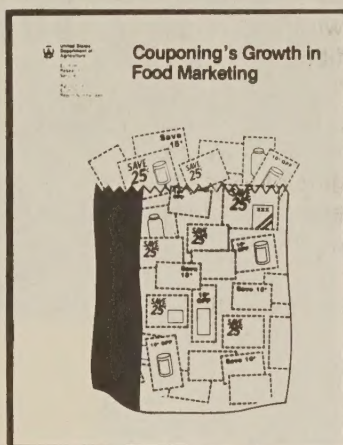
These partial-year figures, combined with profit margins for wholesalers and restaurants, suggest that corporate profits before taxes earned by the food industry in 1982 were about \$13 billion, or 4.5 percent of consumer food spending.

Would You Like More Detailed Information?

This summary is based on an annual report, entitled "Developments in Farm to Retail Price Spreads for Food Products in 1982," to be published shortly. In addition to reporting on 1982 developments in food prices, farm to retail price spreads, food spending, profits, and marketing costs in the food industry, it discusses price spread changes for leading food items such as Choice beef, milk, and bread. Includes statistical tables and charts.

To receive ordering information when report is issued, send your name and address to Farm to Retail Price Spreads, Economic Research Service, 500 12th St. SW, Rm. 278, Washington, D.C. 20250.

Contact Denis Dunham at (202) 447-8801 for further information.



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Couponing's Growth in Food Marketing, by Anthony E. Gallo, Larry G. Hamm, and James A. Zellner. June 1982. 24 pp. Order AER-486, \$3.25.

The number of cents-off coupons distributed by manufacturers and retailers rose from 10 billion to 90 billion between 1965 and 1980. Four out of five households redeemed coupons in 1979, making coupons the most rapidly growing form of food advertising. This report analyzes the use of coupons by consumers, as a marketing tool by manufacturers and retailers, and in the marketing of farm products. Ordering instructions below.

Food Consumption, Prices, and Expenditures, 1960-81, by Richard Prescott. Nov. 1982. 104 pp. Order SB-694. \$5.50.

This annual bulletin provides an up-to-date and unified source of data on: per capita food consumption for 23 food categories, food supply and use tables for 46 commodities, nutrient availability, retail and producer price indexes, price spreads, marketing costs, and more. Narrative and charts highlight significant changes in key food-sector indicators. Ninety tables. Ordering information below.

The Foodservice Industry: Structure, Organization, and Use of Food, Equipment, and Supplies, by Michael G. Van Dress. Sept. 1982. 168 pp. Order SB-690. \$6.50.

America's growing appetite for eating out spurred phenomenal growth in foodservice establishments. In 1979...The industry served 169 million customers daily...The retail value of food served away from home topped \$100 billion...Foodservice establishments numbered 378,000 and purchased close to 50 billion pounds of food. Includes highlights section, detailed tables, methodology discussion. Ordering information below.

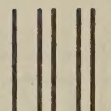
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